Original Research Article

The importance of competition policy in European integration

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Abstract: As the largest supranational organization and economic bloc in the world, the integration of European Union has always been one of the most popular objects in the field of international relation study. And among all the policies of European integration, competition policy can be considered as the most significant and instructive. This paper will analyse the history of competition policy and its development in the European integration process, and to profile its value as a reference for similar organizations in other regions of the world.

Keywords: European Integration; European Union; Economic Integration; Competition Policy

1. Introduction

The transformation for European integration, which is a process that has altered the features of the politico-economic map of Europe, rests on several key factors. However, one of the most important components of these factors is competition policy, which is responsible for running the internal market by promoting and controlling anti-competitive practices. Since the inception of the European Economic Community, competition policy has been regarded as instrumental in creating an integrated market. Its significance has risen paralleled with the growth and strengthening of the European Union as a worldwide economic bloc. Analyzing its significance in encouraging economic cooperation, market effectiveness, and non-discrimination effectiveness, this essay aims to state that competition policy is vital and has a basis for European integration. This report will first briefly introduce the historical development of European integration, which mainly focuses on economic integration, and then explain the importance of competition policy based on the explanation of economic integration. Finally, this essay will critically reflect on competition policy, highlighting its limits and challenges.

2. The historic development of european integration

2.1. The process of European integration

As the biggest trading union and universal actor in the world, the development of the European Union is the most crucial carrier and institutional manifestation of European integration. European integration emerged from the desire to prevent future conflicts and rebuild economies devastated by World War II among the European countries. Five years after 1945, two of the largest European countries, France and the newborn Federal Republic Germany, began to push for establishing a supranational economic organization, focusing primarily on core products in terms of coal and steel (Gilbert, 2012). Under the leadership of leaders like Robert Schuman and Jean Monnet, the European Coal and Steel Community was created in 1951 and was considered the first step in European integration.

The decade from the 1950s to the 1960s witnessed Western European economic unification's emergence and flourishing development. When the six original states were able to agree upon the basic objectives in advance, the economic objective of a common market and the political one of some supranational authority, the Treaty of Rome, which was signed in 1957 had answered the question of whether integration could proceed beyond a limited sectoral level (Urwin, 1995). As ECSC was set to cooperate in terms of trading coals and steels, the Treaty of Rome produced the European Economic Community and the European Atomic Energy Community, aiming to create a common market for factors of production. Further integration in transport and energy came to be a reality in the following years, along with the huge economic benefits brought by the EEC to the six member states in "small" Europe. More European nations joined the European integration process to assist domestic economic development. In 1973, The European Community enlarged for the first time, with the United Kingdom, Denmark, and Ireland joining, which can be seen as another milestone in economic integration. Ten years later, the Single European Act was signed in 1987, which marked a significant step toward deeper economic and political cooperation among the nine EEC member states. The most outstanding contribution of SEA is its aim of building a single European Market by 1992, which helps to remove the tariff within the EU and sustain common tariff external in global trades, boosts the free movement of economic factors like goods, people, and services internal, and makes the EU become one of the most competitive economies in the world. So far, the economic integration among European states has reached the culmination, and the supranational authority of the EEC has been extended to different areas of environmental protection, research and development, and social cohesion (Pelkmans, 2006). In the Paris Summit (1974), states recognized that they needed a regulatory institution, and European leaders agreed to formalize their regular summits, which was a turning point in establishing the European Council. Therefore, in 1992, the Treaty of Maastricht established the European Union and officially acknowledged the European Council's leadership role in shaping key policies like monetary union and foreign relations.

2.2. The importance of economic integration in the process of european integration

The development of European integration could be traced back to post-Second World War Europe, where leaders of Europe sought a framework to promote stability. Consequently, the world was encouraged to embrace economic integration since it was said to address conflict escalations while seeking to restore affected nations' economies. The European Coal and Steel Community began in 1951 to control key industries meant for integration, hence the beginning of the economic communities (Kaniel, 2023). This cooperation increased with the formation of the European Economic Community in 1957, which prepared the basis for setting the internal market. The establishment of the single market, formalized by the Single European Act (SEA) of 1986, removed trade barriers and allowed goods, services, capital, and labor to move freely across member states.

The integration process changed the EU into a single economic unit capable of competing in the global market. Nevertheless, for this market to effectively and fairly function, a competition policy was established to prevent and control monopolies, cartels, and other anti-competitive behaviors. If there are no stringent competition rules to complement the economic integration, then it is very easy to be defeated by market distortion. Hence, competition policy has emerged in the fold of European integration policies to help maintain the single market competitiveness and freedom for businesses of all sizes. It was the Western European countries that realized they could no longer pursue their short-term interests regardless of their neighbors ' acts that pushed the development of European integration (Gilbert, 2012). Therefore, Economic integration is the fundamental driving force behind political, social, and cultural integration. Eighty percent of the acquis are single market legislation, which is enough to prove how important strict regulation of the single market is in European integration (Hix & Goetz, 2000). Being primarily in the form of regulations and directives, the single market provides uniform trade standards and rules, enforcing fair competition among member states, with the impact of

European-level decisions on the choices available in national political systems now too evident to ignore, which laid the foundation for political integration.

3. The role of competition policy in european integration

3.1. Definition of competition policy

As a major success of the United States postwar economic diplomacy efforts to rebuild Europe, the underlying logic of competition policy recognizes the value of perfect competition, such as motivating innovation and upgrading, but handling and eliminating distortions of competition, such as abuse of market power (Jovanovi, 2013). The evolution of competition policy within European states needs to be understood in the context of European Integration. While competition policy was introduced to prevent anti-competitive practices, protect consumer interests, and ensure that markets operate efficiently and innovatively, it has been attached to great importance since the establishment of EEC (Wenxiu & Jianjun, 2001). The Treaty of Rome laid the legal groundwork for competition policy in its articles, which aimed at anti-competitive agreements such as cartels and abuse of monopoly by large companies. This vicious competition, like collusion or dominating sectoral markets, will severely damage the business environment and make it more difficult for lagging countries and companies to gain market share. Therefore, signing the Treaty of Rome made trade between countries more legal and regulated. Moreover, the Treaty of Rome aimed to create a common market by removing barriers to trade and ensuring a level playing field, with competition policy as a critical tool to achieve these goals.

3.2. The importance of competition policy in economic integration

As the world's first transnational antitrust policy, competition policy has played an important role in European integration with its unique policy content and enforcement effects (Wenxiu & Jianjun, 2001). During the process of economic integration, the competition policy contributed to ensuring a fair single market, promoting economic cohesion and reducing disparities, strengthening the EU's global competitiveness, and supporting the stability of the Economic and Monetary Union. Maintaining a competitive internal market is particularly important in developing European competition policy. Through the institution of EU competition rules, one of the main aims of prohibited exercise is activities like cartel formation through price fixing, monopolistic, and market sharing. Such procedures distort a market by making prices higher, innovation lower, and fewer options for the consumers. Through these behaviors, the EU sustains a competitive market environment where companies can only compete based on price, quality, and product differentiation, enabling consumers and the overall economy to benefit (Cini & Borragán, 2022). The European Commission has been at the forefront of undertaking cases and taking appropriate action against firms known to have engaged in price-fixing or collusion. Publicly visible cases like investigations on the electronics industry reveal how the EU applies competition policy to preserve market reputation. Without such measures, dominant firms could easily abuse their structure, preclude competition, and go against the very idea of European integration. However, competition policy is not only useful in avoiding anti-competitive conduct; it also has a central role to play in regulating state aid. State aid has to do with the help the government offers to companies, and most commonly, it affects competition because it offers some players in the market an unfair edge (Meunier & Mickus, 2020). This means that this regulation enhances horizontal parity within the EU since the efficiencies of some particular states to manipulate plenty of the market by intervening will cause imbalances, which this regulation works to avoid. This fosters efficient markets, encouraging innovation and consumer choice. All these changes are then reflected in an increase in Gross Domestic Product (Dierx et al., 2017).

Another important factor is that competition policy helps to reduce economic inequalities among EU member states by enforcing uniform rules across the internal market. It provides a framework for smaller and emerging economies to thrive alongside larger economies, fostering economic cohesion. Sharing rules and interests through competition policy, the economic interdependence between states has deepened, which can be seen as a powerful driving force of integration. Based on the stronger economic stickiness within Europe and more balanced national power, the European Union, as a supranational actor, can demonstrate stronger economic competitiveness on the global stage when trading with other economies. Competition policy is essential in stabilizing EMU by ensuring that market distortions do not arise from unfair business practices or state interventions. Especially when it comes to international emergencies such as economic crises or COVID-19, competition policy helps to prevent fiscal imbalances and market turmoil that could affect the functioning of the euro.

Contrary to being a tool for regulating competition and countering anti-competitive practices, competition policy g is also crucial for achieving efficiency in the EU economy. This is through the reduction of barriers to trade and encouraging fairness when competing for the union's growth. The internal market favors the business opportunities to scale up and get to a big market, which means it increases efficiency by achieving economies of scale. Furthermore, competition changes the market, evoking technological improvements, lower costs, and enhanced goods or services, which means higher market efficiency and productivity. For instance, the liberalization of energy generation and supply within the EU is one area where competition policy has made sense in achieving efficiency. Bear in mind that, consequently, by breaking up state monopolies and market liberalization, the EU has managed to decrease energy prices, enhance the high quality of companies, and enhance the effectiveness of the sector in question. This has not only provided a positive impact on consumers but has also helped in market development, which has opened new doors for all new entities to invest in this way and pave the path of advancement (Egan & Guimarães, 2017). Correspondingly, the support of competition policy from the EU guarantees that member states would maintain the competitive industries necessary for commanding international economic space. The absence of a competition policy may lead to a situation where several giants control the internal market, newcomers cannot join the market, and innovation is slowed down. Thus, competition policy contributes to the objective of maintaining the competitiveness of the EU on the international level and creating the right conditions for business activity for the general progress of the union.

4. Challenges and limits of competition policy

As one of the most contributing rules in fostering European Integration, there are still some limits and difficulties in implementing and improving competition policy. During the integration process, member states must surrender some of their powers to supranational governance, which means that the sovereignty may be undermined. Hence, balancing the trade policies of member states with those of this supranational actor is a very important issue. Few countries regarded the control of anti-competitive practices as a priority, and those that had instituted regulations to safeguard competition took contrasting approaches (Akman & Kassim, 2010). While actively promoting European integration, member states undoubtedly hope their economies will prosper. For instance, with COVID-19 years, some EU countries declined allowing the free movement of people and goods, on one hand, to prevent the spread of the virus during population movement and on the other hand, to support the development of their industry and commerce as much as possible in the context of the economic depression caused by the epidemic, which has revealed the ineffectiveness of competition policy in dealing with the political intervention by member states.

Furthermore, as the strategy of European integration tends to transfer from economic areas to political and security areas, the competition policy may face some contradiction with the need to improve EU competitiveness in key sectors like supranational defense or international relations with other superpowers. For instance, the EU blocked the merger of Siemens and Alstom in 2019 to protect perfect competition in the railway sector regardless of the possibility of a collision with Chinese outbound investment (Lowe & Burnside, 2023), showing the vacancy of competition policy when certain clauses would harm foreign relations. Moreover, the competition policy might be quite elaborate. At the same time, its enforcement could be quite uneven, and decision-making could be rather slow. The legal processes inherent in analyzing anti-competitive behaviors or mergers have often proved cumbersome, taking a long and uncertain time that creates a lot of intimated businesses and governments.

5. Conclusion

Competition policy is undeniably essential to economic integration, serving as a cornerstone for the single market and a guarantor of economic fairness and efficiency, which are the fundamental fields of European integration. It reinforces the cohesion among European countries, fosters cross-border trade and investment, and enhances the bloc's global competitiveness. However, its ability may be limited by this supranational authority's ability to cope with the conflicts in member states ' legislation and foreign relations with other super economies. While other factors like political cooperation and social integration are equally important, competition policy remains integral to maintaining the economic foundation and ensuring its future as a unified entity. As the EU continues to evolve, competition policy will undoubtedly play a central role in shaping its integration trajectory, and it also needs to be improved continuously in the future process of European integration.

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